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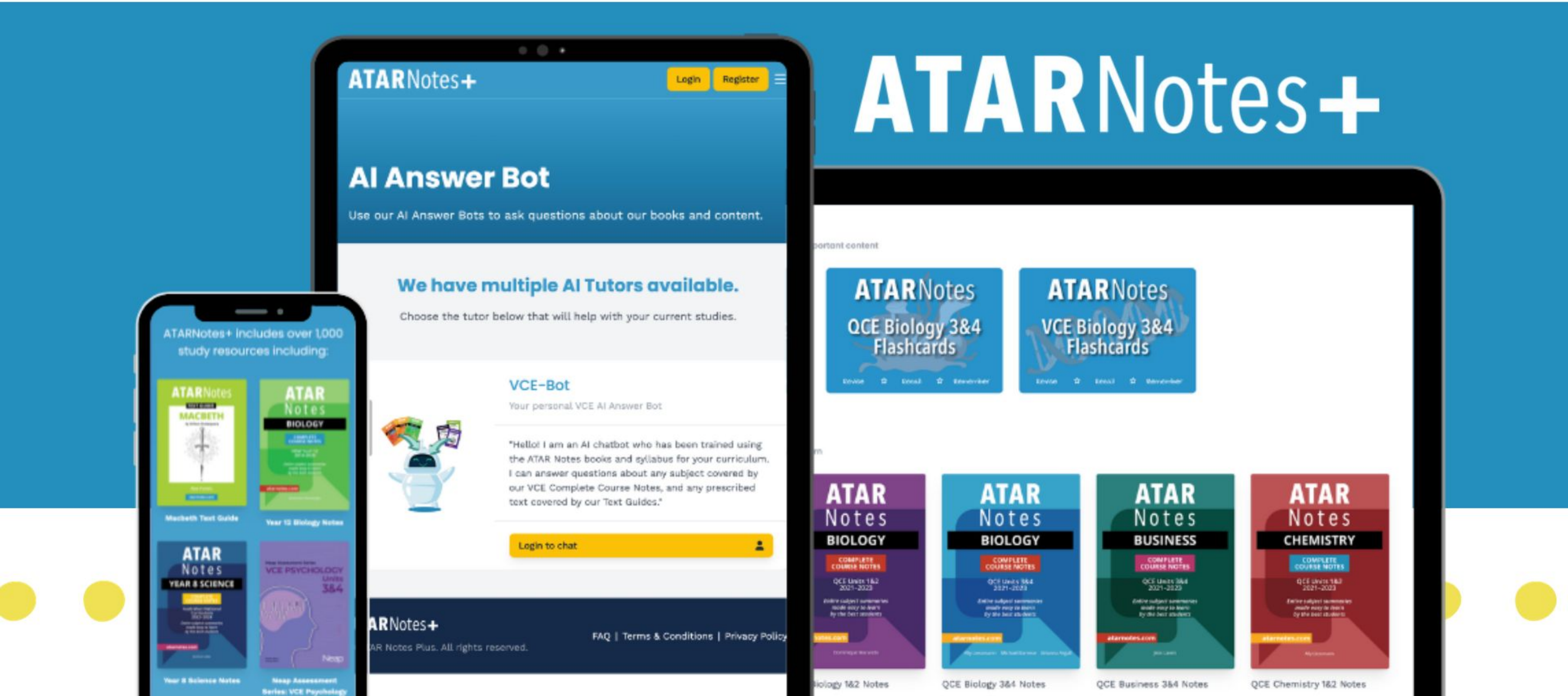

ATARNotes

VCE Accounting 3&4

ATARNotes JANUARY Lecture Series

Presented by:
ALICIA

About me!

- Graduated in 2021 with an ATAR of 94.95
- Currently studying a double degree of Information Technology and Science at Monash

Introduction

Lecture Schedule		
1:00 - 2:15	Content Block 1	- The basics of accounting - The General Journal - The General Ledger - The GST Clearing account and source documents
2:15 - 3:00	Content Block 2	- Dealing with inventory - Valuing inventory - Managing business performance

Content Block 1

Area of Study 1

ACCOUNTING QUESTIONS

Identify	State the term (assumption, characteristic, classification, etc.) that applies
Define	Write out the correct definition of the term
Link	Explain why it relates to the specific scenario (link it back to the question)

- The purpose of accounting is to provide financial information , to help ensure that the business owner makes **informed** decisions

- **The Accounting Process**
    1. Source Documents
    2. Recording
    3. Reporting
    4. Advice

ACCOUNTING ASSUMPTIONS

- **Accounting Entity Assumption**
  - The records of assets, liabilities and activities of the business must be completely **separate** from the owner and any other entities.
    - Drawings, Contributions

- **Accrual Basis Assumption**
  - Revenues should be recognised when they are **earned** and expenses should be recognised when they are **incurred**. This ensures an **accurate calculation of profit**.

Profit = Revenues earned – Expenses incurred

ACCOUNTING ASSUMPTIONS

- **Going Concern Assumption**
  - Financial reports are prepared under the assumption that the business will continue to operate into the future.

- **Period Assumption**
  - The life of the business is broken up into shorter **reporting periods.**
  - Reports are prepared each reporting period.
  - This ensures **comparability** (qualitative characteristic) of reports.

QUALITATIVE CHARACTERISTICS

- **Relevance**
  - Financial reports should contain all information that is **capable of making a difference to decision-making**.

- **Faithful Representation**
  - Financial reports should be **complete, free from material error and free from bias**.
  - This ensures that the reports are a faithful representation of the **real-world economic events** it claims to represent.

QUALITATIVE CHARACTERISTICS

- **Comparability**
  - Financial reports should be able to be compared to reports from previous periods and that of other businesses.
- **Verifiability**
  - Financial reports should be evidenced by reference to source documents.
  - This ensures that different, individual observers can reach the same consensus that the financial information is faithfully represented.

QUALITATIVE CHARACTERISTICS

- **Timeliness**
  - Financial reports should be prepared and readily available **in time** to influence decision-making.

- **Understandability**
  - Financial reports should be readable and comprehensible to users with reasonable knowledge and understanding of business and economic activities.
  - To achieve this, the reports should **not contain any confusing accounting jargon**.
  - Using graphs and other visual aids helps achieve Understandability.

QUIZ QUESTION 1

Explain how the use of source documents supports an accounting **qualitative characteristic**.

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Faithful Representation would also be accepted here with a

similar explanation

QUIZ QUESTION 2

With reference to one **qualitative characteristic**, explain why we classify the Balance Sheet? *(Current / Non-Current)*

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Answer: **Understandability**

QUIZ QUESTION 2

With reference to one **qualitative characteristic**, explain why we classify the Balance Sheet? *(Current / Non-Current)*

Answer: **Understandability**

- Understandability states that information shown in financial reports must be presented clearly and concisely to be easily comprehensible to users. By classifying the Balance Sheet it becomes easier to comprehend the report, as users can easily see which assets and liabilities and current or non-current.

QUIZ QUESTION 3

With reference to one **accounting assumption**, explain why sales is reported as revenue.

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Answer: **Accrual Basis**

QUIZ QUESTION 3

With reference to one **accounting assumption**, explain why sales is reported as revenue.

Answer: Accrual Basis

- Accrual Basis states that in order for profit to be calculated accurately, all revenues must be recognised when earned and all expenses must be recognised when incurred. Sales meets the criteria of a revenue, according to the definition (increase in assets that leads to an increase in owner's equity). Thus, sales must be reported as revenue so that profit is accurate.

Area of Study 1

The basics of accounting

THE ACCOUNTING ELEMENTS

- **Asset**
    - A *present economic resource* controlled by the business as a result of past events with the potential to provide *future economic benefits*.

Area of Study 1

The basics of accounting

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- **Non-Current Asset**
  - A *present economic resource* controlled by the business as a result of past events with the potential to provide *future economic benefits* that is not held for the purpose of resale and will provide benefits for many years.

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Area of Study 1

The basics of accounting

THE ACCOUNTING ELEMENTS

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  - The residual interest in the assets of the business after liabilities have been deducted.

Area of Study 1

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ASSETS

Area of Study 1

The basics of accounting

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ASSETS

LIABILITIES

Area of Study 1

The basics of accounting

THE ACCOUNTING ELEMENTS

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ASSETS

OWNER'S EQUITY

LIABILITIES

Area of Study 1

The basics of accounting

THE ACCOUNTING ELEMENTS

- **Owner's Equity**
  - The **residual interest in the assets of the business** **after liabilities have been deducted**.

OWNER'S EQUITY = ASSETS – LIABILITIES

The basics of accounting

THE ACCOUNTING ELEMENTS

- **Revenue**
  - An increase in assets OR a decrease in liabilities that results in an increase in owner's equity, *not including a capital contribution*.

Area of Study 1

The basics of accounting

THE ACCOUNTING ELEMENTS

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Area of Study 1

The basics of accounting

THE ACCOUNTING ELEMENTS

- **Revenue**
  - **An increase in assets OR a decrease in liabilities** that **results in an increase in owner's equity**, ***not including a capital contribution***.

- **Expense**
  - An increase in liabilities OR a decrease in assets that results in an decrease in owner's equity, *not including drawings*.

Area of Study 1

The basics of accounting

THE ACCOUNTING ELEMENTS

- **Revenue**
  - **An increase in assets OR a decrease in liabilities** that **results in an increase in owner's equity**, ***not including a capital contribution***.

- **Expense**
  - **An increase in liabilities OR a decrease in assets** that **results in an decrease in owner's equity**, ***not including drawings***.

QUIZ QUESTION 4

The business took out a $20 000 loan that they need to pay off in 5 years. They will make repayments of $4 000 per year until the loan is repaid.

How is this loan classified?

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How is this loan classified?

Answer: Current Liability AND Non-Current Liability

QUIZ QUESTION 4

The business took out a $20 000 loan that they need to pay off in 5 years. They will make repayments of $4 000 per year until the loan is repaid.

How is this loan classified?

Answer: **Current Liability AND Non-Current Liability**

- **$4 000** of the loan is classified as a **Current Liability** because it is a present obligation of the business reasonably expected to be settled within 12 months (it's required to be paid within the next 12 months). The remaining **$16 000** of the loan is classified as a **Non-Current Liability** because it is a present obligation of the business that will be settled after the next 12 months.

QUIZ QUESTION 5

The business put money aside $20 000 in a term deposit (that earns interest). The term deposit has matured with interest and they receive $26 000 back (including interest earned)

How is the interest earned classified?

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Answer: Revenue

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The business put money aside $20 000 in a term deposit (that earns interest). The term deposit has matured with interest and they receive $26 000 back (including interest earned)

How is the interest earned classified?

Answer: Revenue

- The interest earned is an increase in assets (cash at Bank)that results in an increase in owner's equity, that isn't capital contribution. Therefore it meets the definition of a revenue and should be classified as such. It is **$6 000** of **Interest Revenue**.

QUIZ QUESTION 6

The business purchases a $20 000 Van to use for deliveries.

How is the Van classified?

QUIZ QUESTION 6

The business purchases a $20 000 Van to use for deliveries.

How is the Van classified?

Answer: **Non-Current Asset**

QUIZ QUESTION 6

The business purchases a $20 000 Van to use for deliveries.

How is the Van classified?

Answer: **Non-Current Asset**

- The Van is a **$20 000 Non-Current Asset**. This is because it is a present economic resource controlled by the business as a result of past events that is not held for the purpose of resale and will provide economic benefits to the business (deliveries) for many years.

QUIZ QUESTION 7

The business owes $5 000 to Accounts Payable. The credit terms for this amount are 5/10, n/30

How is Accounts Payable classified?

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The business owes $5 000 to Accounts Payable. The credit terms for this amount are 5/10, n/30

How is Accounts Payable classified?

Answer: Current Liability

QUIZ QUESTION 7

The business owes $5 000 to Accounts Payable. The credit terms for this amount are 5/10, n/30

How is Accounts Payable classified?

Answer: Current Liability

- Accounts Payable is a **$5 000 Current Liability** because it is a present obligation of the business as a result of past events to transfer an economic resource (cash to suppliers) that is reasonably expected to be settled within the next 12 months after the reporting period (it is required to be paid within 30 days according to the credit terms).

QUIZ QUESTION 8

The business pays $7 000 wages to employees.

How is Wages classified?

QUIZ QUESTION 8

The business pays $7 000 wages to employees.

How is Wages classified?

Answer: Expense

QUIZ QUESTION 8

The business pays $7 000 wages to employees.

How is Wages classified?

Answer: Expense

- Wages is an Expense because it is a decrease in assets (cash at Bank) that results in a decrease in owner's equity, that isn't drawings. Thus it meets the expense definition. It is **Wages Expense** of **$7 000**.

QUIZ QUESTION 9

The business purchases $10 000 of inventory on credit.

How is Inventory classified?

QUIZ QUESTION 9

The business purchases $10 000 of inventory on cash.

How is Inventory classified?

Answer: Current Asset

QUIZ QUESTION 9

The business purchases $10 000 of inventory on cash.

How is Inventory classified?

Answer: Current Asset

- Inventory is a **$10 000 Current Asset** because it is a present economic resource controlled by the business as a result of past events that will be sold within the next 12 months after the reporting period.

Area of Study 1

The basics of accounting

THE ACCOUNTING EQUATION

ASSETS = LIABILITIES + OWNER'S EQUITY

- The accounting equation is directly related to double entries.

- **Double entry accounting rules:**
  - Every transaction will affect at least two elements within the accounting equation
  - After recording the entry, the accounting equation must still balance.

THE GENERAL LEDGER

Ledger Account Name

Date	Cross-reference	Amount	Date	Cross-reference	Amount

THE GENERAL LEDGER

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
10/2	Bank	2000			

Area of Study 1

Double-entry Accounting

DEBITS AND CREDITS

In the general ledger:

- an entry in the **left** side is a **DEBIT**
- an entry in the **right** side is a **CREDIT**

Area of Study 1

Double-entry Accounting

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Area of Study 1

Double-entry Accounting

DEBITS AND CREDITS

In the general ledger:

- an entry in the **left** side is a **DEBIT**
- an entry in the **right** side is a **CREDIT**

IMPORTANT: **DEBIT** and **CREDIT** can mean either an increase or a decrease in the ledger account, depending on the ***type of account***

Area of Study 1

Double-entry Accounting

DEBITS AND CREDITS

The following are types of ledger accounts:

- **ASSET** accounts (current asset / non-current asset)
- **LIABILITY** accounts (current liability / non-current liability)
- **OWNER'S EQUITY** accounts
- **CAPITAL CONTRIBUTION** account (owner's equity)
- **DRAWINGS** account (NEGATIVE owner's equity)
- **REVENUE** accounts
- **EXPENSE** accounts

DEBITS AND CREDITS

Double-entry Accounting

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- **REVENUE** accounts
- **EXPENSE** accounts

Area of Study 1

Double-entry Accounting

DEBITS AND CREDITS

The different types of ledger accounts have different rules

ASSET, DRAWINGS & EXPENSE ACCOUNTS**:**

- **DEBIT** entries **(to the left) INCREASE** the account
- **CREDIT** entries **(to the right) DECREASE** the account

LIABILITY, CAPITAL CONTRIBUTION & REVENUE ACCOUNTS**:**

- **DEBIT** entries **(to the left) DECREASE** the account
- **CREDIT** entries **(to the right) INCREASE** the account

Area of Study 1

DEBITS AND CREDITS

Double-entry Accounting

ASSETS / DRAWINGS / EXPENSES	↑ Debit / ↓ Credit
LIABILITIES / CAPITAL CONTRIBUTIONS / REVENUES	↑ Credit / ↓ Debit

Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

BUT,

before we get to the **General Ledger**, we have to know the **General Journal**

The General Journal:

- used to record transactions before we post them to the General Ledger

Area of Study 1

THE GENERAL JOURNAL

Date	Details	Debit	Credit

Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

When we enter a transaction into the **General Journal**, there's a process:

1. Which accounts does the transaction affect?
2. What is the effect on each of the affected accounts? Increase or decrease?
3. Should each account be debited or credited?
4. Record the transaction in the General Journal.

Double-entry Accounting

THE GENERAL JOURNAL

Example

On the 2nd of February, the business bought $400 worth of Inventory with cash (Receipt 41). Record this transaction into the General Journal of the business.

Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

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Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

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On the 2nd of February, the business bought $400 worth of Inventory with cash (Receipt 41). Record this transaction into the General Journal of the business.

1. **Accounts affected: Inventory** and **Bank**
2. **What is the effect on the affected accounts? Increase or decrease?**
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Area of Study 1

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3. **Debited or credited?: DEBIT Inventory**
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THE GENERAL JOURNAL

Example **DEBIT Inventory** and **CREDIT Bank**

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Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

Example **DEBIT Inventory and CREDIT Bank**

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Date	Details	Debit	Credit

Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

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On the 2nd of February, the business bought $400 worth of Inventory with cash (Receipt 41). Record this transaction into the General Journal of the business.

Date	Details	Debit	Credit
2/2	Inventory	400	
	Bank		400
	Cash purchase of inventory (Rec. 41)		

Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

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On the **2nd of February**, the business bought **$400** worth of Inventory with cash (Receipt 41). Record this transaction into the General Journal of the business.

Date	Details	Debit	Credit
2/2	Inventory	400	
	Bank		400
	Cash purchase of inventory (Rec. 41)		

Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

Example **DEBIT Inventory and CREDIT Bank**

On the **2nd of February**, the business bought **$400** worth of Inventory with cash (Receipt 41). Record this transaction into the General Journal of the business.

Date	Details	Debit	Credit
2/2	Inventory	400	
	Bank		400
	Cash purchase of inventory (Rec. 41)		

NARRATION

Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

THEN,

Once we've recorded in the General Journal, we can use this to post the transaction into the **General Ledger**

Double-entry Accounting

THE GENERAL JOURNAL

THEN,

Once we've recorded in the General Journal, we can use this to post the transaction into the **General Ledger**

Ledger Account Name

Date	Cross-reference	Amount	Date	Cross-reference	Amount

Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

Example **going back to our example**

On the 2nd of February, the business bought $400 worth of Inventory with cash (Receipt 41). Record this transaction into the General Journal of the business.

Date	Details	Debit	Credit
2/2	Inventory	400	
	Bank		400
	Cash purchase of inventory (Rec. 41)		

Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

Example **DEBIT Inventory $400 & CREDIT Bank $400**

On the 2nd of February, the business bought $400 worth of Inventory with cash (Receipt 41). Record this transaction into the General Journal of the business.

Date	Details	Debit	Credit
2/2	Inventory	400	
	Bank		400
	Cash purchase of inventory (Rec. 41)		

Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

Example **DEBIT Inventory $400 & CREDIT Bank $400**

On the 2nd of February, the business bought $400 worth of Inventory with cash (Receipt 41). Record this transaction into the General Journal of the business.

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
2/2	Bank	400			

Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

Example **DEBIT Inventory $400 & CREDIT Bank $400**

On the 2nd of February, the business bought $400 worth of Inventory with cash (Receipt 41). Record this transaction into the General Journal of the business.

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
2/2	Bank	400			

Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

Example **DEBIT Inventory $400 & CREDIT Bank $400**

On the 2nd of February, the business bought $400 worth of Inventory with cash (Receipt 41). Record this transaction into the General Journal of the business.

Bank

Date	Cross-reference	Amount	Date	Cross-reference	Amount
			2/2	Inventory	400

Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

Example **DEBIT Inventory $400 & CREDIT Bank $400**

On the 2nd of February, the business bought $400 worth of Inventory with cash (Receipt 41). Record this transaction into the General Journal of the business.

Bank

Date	Cross-reference	Amount	Date	Cross-reference	Amount
			2/2	Inventory	400

Area of Study 1

Double-entry Accounting

THE GENERAL JOURNAL

Example **DEBIT Inventory $400 & CREDIT Bank $400**

On the 2nd of February, the business bought $400 worth of Inventory with cash (Receipt 41). Record this transaction into the General Journal of the business.

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
2/2	Bank	400			

Bank

Date	Cross-reference	Amount	Date	Cross-reference	Amount
			2/2	Inventory	400

Double-entry Accounting

THE GENERAL JOURNAL

Example **DEBIT Inventory $400 & CREDIT Bank $400**

On the 2nd of February, the business bought $400 worth of Inventory with cash (Receipt 41). Record this transaction into the General Journal of the business.

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
2/2	Bank	400			

Bank

Date	Cross-reference	Amount	Date	Cross-reference	Amount
			2/2	Inventory	400

Double-entry Accounting

THE GENERAL JOURNAL

There are a few **common entries** that are posted often in the General Ledger.

These include:

- Cash sales of inventory
- Credit sales of inventory
- Cash purchases of inventory
- Credit purchases of inventory
- Receipts from accounts receivable
- Payments to accounts payable
- Capital contributions
- Drawings

There are other transactions not on this list that you may encounter.

GST Clearing Account

Area of Study 1

The basics of GST

- The Goods and Services Tax (GST) is a 10% tax levied by the federal government on most purchases of goods and services

Key tip: Assume that everything has GST except:

- fruit
- loans
- wages
- capital
- interest
- drawings
- capital contributions

GST Clearing Account

Calculating GST

- GST is 10% of the price on any goods or services transaction
- Questions present GST in two ways:

1. **Plus GST**: GST needs to be added to determine the total price

e.g. **The business purchased inventory for $4000 (plus GST)**

2. **Including GST**: The price given includes GST

e.g. **The business purchased inventory for $4400 (including GST)**

Key tip: To add GST multiply the price by 1.1

To find the price excluding GST divide by 1.1

GST Clearing Account

The basics of GST

- The business **collects GST** (from customers) on **behalf of the ATO** (Australian Taxation Office)
- GST received creates a liability (because it is owed to the ATO)
- GST paid (to suppliers, etc.) reduces the business' liability (amount owed)

- If the business **RECEIVES MORE GST THAN IT PAYS**:
  - then it is a **current liability**
  - The **Business** will **owe the ATO** a **GST settlement**
- If the business **PAYS MORE GST THAN IT RECEIVES**:
  - then it is a **current asset**
  - The **ATO** will **owe the business** a **GST refund**

- GST Clearing can either be a current liability or a current asset

GST Clearing Account

The GST clearing ledger account

- Because **selling prices are greater than cost prices** (because of mark-ups), **a GST settlement is more common** than a GST refund
- Therefore, GST Clearing is **more likely to be a current liability** than a current asset.

- The only circumstance where GST Clearing would be a **GST refund** and a **current asset** is if the **business makes a large, expensive purchase**

Area of Study 1

GST Clearing Account

ASSETS / DRAWINGS / EXPENSES	↑ Debit / ↓ Credit
LIABILITIES / CAPITAL CONTRIBUTIONS / REVENUES	↑ Credit / ↓ Debit

GST Clearing (L or A)

A decrease is a Debit (DR)	An increase is a Credit (CR)

GST Clearing Account

ASSETS / DRAWINGS / EXPENSES	↑ Debit / ↓ Credit
LIABILITIES / CAPITAL CONTRIBUTIONS / REVENUES	↑ Credit / ↓ Debit

GST Clearing (L or A)

A decrease is a Debit (DR)	An increase is a Credit (CR)

Area of Study 1

The Pre-adjustment Trial Balance

The pre-adjustment trial balance

- The pre-adjustment trial balance is prepared **at the end of each period**.
- It's a list of all **accounts** in the General Ledger and their **balances**
- The balances of the accounts could **either be debit or credit**

- There are certain accounts that are always a certain type of balance
    - **Inventory** is always a **DEBIT** balance – can't have "negative" Inventory
    - **Accounts Receivable** is always a **DEBIT** balance owed to the business
    - **Loan** is always a **CREDIT** balance – owed to the Bank
    - **Accounts Payable** is always a **CREDIT** balance – business owes suppliers
- There are other accounts that could be **either**
    - **Bank** could be **DEBIT** (***positive balance***) **or CREDIT** (***negative balance***)
    - **GST Clearing** could be **CREDIT** (***liability***) **or DEBIT** (***asset***)

The Pre-adjustment Trial Balance

Account	Debit	Credit
Bank	19 000	
Inventory	28 000	
Accounts Receivable	20 000	
Accounts Payable		10 000
Loan — F.K Bank		35 000
Credit Sales		50 000
Cost of Sales	25 000	
Wages Expense	8 000	
Capital — Owner		5 000
	100 000	**100 000**

Area of Study 1

The Pre-adjustment Trial Balance

The pre-adjustment trial balance

- As we know, the pre-adjustment trial balance lists all the balances of the accounts in the General Ledger.
- But **how do we get those balances?**

The Pre-adjustment Trial Balance

Footing

- Footing is an informal method of calculating the balance of an account for the pre-adjustment trial balance

The steps of footing are:

1. Total all debits on the left and all credits on the right
2. Deduct the smaller total from the larger total (this gives us the balance of the account)
3. Write the balance on the side of the larger total

Area of Study 1

Footing

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1/2	Balance	12 400	2/2	Cost of Sales	6 000
6/2	Bank	1 000	16/2	Cost of Sales	2 200
12/2	Accounts Payable	4 000	22/2	Drawings	1 600
18/2	Cost of Sales	600			

Footing

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1/2	Balance	12 400	2/2	Cost of Sales	6 000
6/2	Bank	1 000	16/2	Cost of Sales	2 200
12/2	Accounts Payable	4 000	22/2	Drawings	1 600
18/2	Cost of Sales	600			

Area of Study 1

Footing

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1/2	Balance	12 400	2/2	Cost of Sales	6 000
6/2	Bank	1 000	16/2	Cost of Sales	2 200
12/2	Accounts Payable	4 000	22/2	Drawings	1 600
18/2	Cost of Sales	600			
	18 000				

Footing

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1/2	Balance	12 400	2/2	Cost of Sales	6 000
6/2	Bank	1 000	16/2	Cost of Sales	2 200
12/2	Accounts Payable	4 000	22/2	Drawings	1 600
18/2	Cost of Sales	600			
	18 000				

Footing

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1/2	Balance	12 400	2/2	Cost of Sales	6 000
6/2	Bank	1 000	16/2	Cost of Sales	2 200
12/2	Accounts Payable	4 000	22/2	Drawings	1 600
18/2	Cost of Sales	600			
	18 000			9 800	

Area of Study 1

Footing

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1/2	Balance	12 400	2/2	Cost of Sales	6 000
6/2	Bank	1 000	16/2	Cost of Sales	2 200
12/2	Accounts Payable	4 000	22/2	Drawings	1 600
18/2	Cost of Sales	600			
	18 000			9 800	

Footing

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1/2	Balance	12 400	2/2	Cost of Sales	6 000
6/2	Bank	1 000	16/2	Cost of Sales	2 200
12/2	Accounts Payable	4 000	22/2	Drawings	1 600
18/2	Cost of Sales	600			
	18 000			9 800	

18 000 — 9 800 =

Footing

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1/2	Balance	12 400	2/2	Cost of Sales	6 000
6/2	Bank	1 000	16/2	Cost of Sales	2 200
12/2	Accounts Payable	4 000	22/2	Drawings	1 600
18/2	Cost of Sales	600			
	18 000			9 800	

18 000 — 9 800 = 8 200

Footing

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1/2	Balance	12 400	2/2	Cost of Sales	6 000
6/2	Bank	1 000	16/2	Cost of Sales	2 200
12/2	Accounts Payable	4 000	22/2	Drawings	1 600
18/2	Cost of Sales	600			
	18 000			9 800	
	8 200				

18 000 — 9 800 = 8 200

Footing

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1/2	Balance	12 400	2/2	Cost of Sales	6 000
6/2	Bank	1 000	16/2	Cost of Sales	2 200
12/2	Accounts Payable	4 000	22/2	Drawings	1 600
18/2	Cost of Sales	600			
	18 000			9 800	
	8 200				

18 000 — 9 800 = 8 200

The Pre-adjustment Trial Balance

You need to know the **purpose** and **use** of the pre-adjustment trial balance

The pre-adjustment trial balance

- The **PURPOSE** of the pre-adjustment trial balance is as a **double-checking mechanism**.
- What exactly are we double-checking?

The Pre-adjustment Trial Balance

Account	Debit	Credit
Bank	19 000	
Inventory	28 000	
Accounts Receivable	20 000	
Accounts Payable		10 000
Loan — F.K Bank		35 000
Credit Sales		50 000
Cost of Sales	25 000	
Wages Expense	8 000	
Capital — Owner		5 000
	100 000	**100 000**

Area of Study 1

The Pre-adjustment Trial Balance

Account	Debit	Credit
Bank	19 000	
Inventory	28 000	
Accounts Receivable	20 000	
Accounts Payable		10 000
Loan — F.K Bank		35 000
Credit Sales		50 000
Cost of Sales	25 000	
Wages Expense	8 000	
Capital — Owner		5 000
	100 000	**100 000**

The Pre-adjustment Trial Balance

Account	Debit	Credit
Bank	19 000	
Inventory	28 000	
Accounts Receivable	20 000	
Accounts Payable		10 000
Loan — F.K Bank		35 000
Credit Sales		50 000
Cost of Sales	25 000	
Wages Expense	8 000	
Capital — Owner		5 000
	100 000	**100 000**

We check if the debit and credit balances match. If they don't, we check for errors.

Area of Study 1

The Pre-adjustment Trial Balance

Common errors include:

- **Incorrect calculations**
- **Wrong AMOUNTS**
- **Wrong ACCOUNTS**
- **Swapping debits and credits**

Account	Debit	Credit
Bank	19 000	
Inventory	28 000	
Accounts Receivable	20 000	
Accounts Payable		10 000
Loan — F.K Bank		35 000
Credit Sales		50 000
Cost of Sales	25 000	
Wages Expense	8 000	
Capital — Owner		5 000
	100 000	**100 000**

We check if the debit and credit balances match. If they don't, we check for errors.

Area of Study 1

Balancing

- Balancing is the more formal version of footing
- It is only done at the end of the reporting period **after all errors have been identified and corrected**
- We only balance asset, liability and owner's equity accounts
- Revenue and expense accounts don't balance

- Process:
  1. Total all debits and credits, write the larger total on both sides
  2. Calculate the balance by deducting the smaller total from the larger total
  3. Match the balance, and carry forward balance to the next reporting period

BALANCING

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1/2	Balance	12 400	2/2	Cost of Sales	6 000
6/2	Bank	1 000	16/2	Cost of Sales	2 200
12/2	Accounts Payable	4 000	22/2	Drawings	1 600
18/2	Cost of Sales	600	**28/2**	**Balance**	**8 200**
		18 000			**18 000**
1/3	**Balance**	**8 200**			

18 000 — 9 800 = 8 200

Key tip: Only balance when VCAA explicitly asks you to!

Content Block 2

Inventory Assets

- Moving into Accounting Units 3&4, we *only deal with trading businesses owned by sole proprietors (one owner)*
- **Trading business:** a business that purchases products (inventory) from suppliers, applies a mark-up and then sells the products at a higher price
  - e.g. clothing store, furniture store, jewellry store, etc.

- Inventory is a trading business' **main source of revenue**
- Thus, inventory is one of the **most important assets** a trading business owns

- **Inventory:** assets purchased by trading businesses with the intention of resale

Area of Study 1

The Inventory Card

- To record inventory transactions, we use an inventory card.
- The inventory card summarises all transactions related to inventory

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	**Details**	**IN**			**OUT**		**Qty**	**BALANCE**		
		Qty	**Cost**	**Total**		**Cost**	**Total**	**Qty**	**Cost**	**Total**

Area of Study 1

Inventory

The Inventory Card

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Inventory Card

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Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total

transaction date

Area of Study 1

The Inventory Card

- To record inventory transactions, we use an inventory card.
- The inventory card summarises all transactions related to inventory

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	Details	IN			OUT		Qty	BALANCE		
		Qty	Cost	Total		Cost	Total	Qty	Cost	Total

source document that verifies the transaction

The Inventory Card

- To record inventory transactions, we use an inventory card.
- The inventory card summarises all transactions related to inventory

Inventory Card

Item: XL Blue Shirts
Code: D4AO375
Location: Aisle 8 Atlantic Apparel Warehouse
Supplier:

Date	Details	IN Qty	IN Cost	IN Total	OUT Qty	OUT Cost	OUT Total	BALANCE Qty	BALANCE Cost	BALANCE Total

QUANTITY, COST and TOTAL of inventory coming IN to the business

Area of Study 1

The Inventory Card

- To record inventory transactions, we use an inventory card.
- The inventory card summarises all transactions related to inventory

Inventory Card
Item: XL Blue Shirts
Code: D4AO375
Location: Aisle 8
Atlantic Apparel Warehouse
Supplier:

Date	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total

QUANTITY, COST and TOTAL of inventory going OUT of the business

The Inventory Card

- To record inventory transactions, we use an inventory card.
- The inventory card summarises all transactions related to inventory

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8 Atlantic Apparel Warehouse

Supplier:

Date	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total

QUANTITY, COST and TOTAL of inventory on hand

The Inventory Card

All prices in the Inventory Card are at **COST PRICE** and **DO NOT INCLUDE GST**

There are **different Inventory Cards** for **EACH INVENTORY LINE**

Inventory Card										
Item: XL Blue Shirts **Code:** D4AO375					**Location:** Aisle 8 Atlantic Apparel Warehouse			**Supplier:**		
Date	**Details**		**IN**		**OUT**		**Qty**		**BALANCE**	
		Qty	**Cost**	**Total**		**Cost**	**Total**	**Qty**	**Cost**	**Total**

The Inventory Card

At the start of February, the business already had 20 XL Blue Shirts on hand valued at $10 per shirt.

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	**Details**	**IN** Qty	Cost	Total	**OUT** Qty	Cost	Total	**BALANCE** Qty	Cost	Total

The Inventory Card

At the start of February, the business already had 20 XL Blue Shirts on hand valued at $10 per shirt.

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	**Details**	**IN**			**OUT**		**Qty**	**BALANCE**		
		Qty	**Cost**	**Total**		**Cost**	**Total**	**Qty**	**Cost**	**Total**
1 Feb	Balance							20	10	200

Area of Study 1

The Inventory Card

At the start of February, the business already had 20 XL Blue Shirts on hand valued at $10 per shirt.

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 Feb	Balance							20	10	200

when it's just the opening balance, we write "Balance" under details instead of a source document

Area of Study 1

The Inventory Card

Transaction 1: On Feb 4 the business purchased 25 XL Blue Shirts for $10 (plus GST) per shirt (Invoice 101)

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	Details	IN			OUT		Qty	BALANCE		
		Qty	Cost	Total		Cost	Total	Qty	Cost	Total
1 Feb	Balance							20	10	200

Area of Study 1

The Inventory Card

Transaction 1: On Feb 4 the business purchased 25 XL Blue Shirts for $10 (plus GST) per shirt (Invoice 101)

Inventory Card										
Item: XL Blue Shirts **Code:** D4AO375					**Location:** Aisle 8 Atlantic Apparel Warehouse			**Supplier:**		
Date	**Details**	**IN**			**OUT**			**BALANCE**		
		Qty	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
1 Feb	Balance							20	10	200
4 Feb	Inv. 101	25	10	250				45	10	450

The Inventory Card

Transaction 1: On Feb 4 the business purchased 25 XL Blue Shirts for $10 (plus GST) per shirt (Invoice 101)

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	Details	IN Qty	IN Cost	IN Total	OUT Qty	OUT Cost	OUT Total	BALANCE Qty	BALANCE Cost	BALANCE Total
1 Feb	Balance							20	10	200
4 Feb	Inv. 101	25	10	250				45	10	450

purchasing inventory means inventory is coming IN to the business therefore, the transaction goes into the IN column

Area of Study 1

The Inventory Card

Transaction 1: On Feb 4 the business purchased 25 XL Blue Shirts for $10 (plus GST) per shirt (Invoice 101)

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	Details	IN			OUT		Qty	BALANCE		
		Qty	Cost	Total	Cost	Total		Qty	Cost	Total
1 Feb	Balance							20	10	200
4 Feb	Inv. 101	25	10	250				45	10	450

the price of the shirts is listed as $10 / shirt ($250 altogether)
this price does NOT INCLUDE GST

The Inventory Card

All prices in the Inventory Card are at COST PRICE and DO NOT INCLUDE GST

Transaction 1: On Feb 4 the business purchased 25 XL Blue Shirts for $10 (plus GST) per shirt (Invoice 101)

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 Feb	Balance							20	10	200
4 Feb	Inv. 101	25	10	250				45	10	450

the price of the shirts is listed as $10 / shirt ($250 altogether)
this price does NOT INCLUDE GST

Area of Study 1

The Inventory Card

Transaction 1: On Feb 4 the business purchased 25 XL Blue Shirts for $10 (plus GST) per shirt (Invoice 101)

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	Details	IN			OUT		Qty	BALANCE		
		Qty	Cost	Total		Cost	Total	Qty	Cost	Total
1 Feb	Balance							20	10	200
4 Feb	Inv. 101	25	10	250				45	10	450

the BALANCE of inventory on hand has been updated
the purchased inventory is ADDED ON to the existing balance

Area of Study 1

The Inventory Card

Transaction 2: On Feb 7 the business sold 5 XL Blue Shirts for $165 (including GST) (Receipt 13)

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	**Details**	**IN**			**OUT**		**Qty**	**BALANCE**		
		Qty	**Cost**	**Total**		**Cost**	**Total**	**Qty**	**Cost**	**Total**
1 Feb	Balance							20	10	200
4 Feb	Inv. 101	25	10	250				45	10	450

Area of Study 1

Inventory

The Inventory Card

Transaction 2: On Feb 7 the business sold 5 XL Blue Shirts for $165 (including GST) (Receipt 13)

Inventory Card **Item:** XL Blue Shirts **Code:** D4AO375						**Location:** Aisle 8 Atlantic Apparel Warehouse			**Supplier:**	
Date	**Details**	**IN**			**OUT**		**Qty**	**BALANCE**		
		Qty	**Cost**	**Total**		**Cost**	**Total**	**Qty**	**Cost**	**Total**
1 Feb	Balance							20	10	200
4 Feb	Inv. 101	25	10	250				45	10	450
7 Feb	Rec 13				5	10	50	40	10	400

Area of Study 1

The Inventory Card

Transaction 2: On Feb 7 the business sold 5 XL Blue Shirts for $165 (including GST) (Receipt 13)

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	Details	IN			OUT		Qty	BALANCE		
		Qty	Cost	Total		Cost	Total	Qty	Cost	Total
1 Feb	Balance							20	10	200
4 Feb	Inv. 101	25	10	250				45	10	450
7 Feb	Rec 13				5	10	50	40	10	400

selling inventory means inventory is going OUT of the business therefore, the transaction goes into the OUT column

All prices in the Inventory Card are at COST PRICE and DO NOT INCLUDE GST

Transaction 2: On Feb 7 the business sold 5 XL Blue Shirts for $165 (including GST) (Receipt 13)

Inventory Card
Item: XL Blue Shirts **Location:** Aisle 8 **Supplier:** Atlantic Apparel Warehouse
Code: D4AO375

Date	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 Feb	Balance							20	10	200
4 Feb	Inv. 101	25	10	250				45	10	450
7 Feb	Rec 13				5	10	50	40	10	400

the selling price of the shirts is $30 per shirt ($150 for all 5)
BUT, we have to use the cost price of the shirts — $10 / shirt

The Inventory Card

Transaction 2: On Feb 7 the business sold 5 XL Blue Shirts for $165 (including GST) (Receipt 13)

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	Details	IN Qty	IN Cost	IN Total	OUT Qty	OUT Cost	OUT Total	BALANCE Qty	BALANCE Cost	BALANCE Total
1 Feb	Balance							20	10	200
4 Feb	Inv. 101	25	10	250				45	10	450
7 Feb	Rec 13				5	10	50	40	10	400

the BALANCE of inventory on hand has been updated
the sold inventory is SUBTRACTED from the existing balance

Changing Cost Prices

- Sometimes, suppliers choose to change their prices midway through the reporting period (demand changes, sales, etc.)
- When inventory is bought at different prices, it must be listed separately in the inventory card

Area of Study 1

Changing Cost Prices

Cost Allocation Methods

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	**Details**	**IN**			**OUT**		**Qty**	**BALANCE**		
		Qty	**Cost**	**Total**		**Cost**	**Total**	**Qty**	**Cost**	**Total**
1 Feb	Balance							20	10	200

Changing Cost Prices

Transaction 1: On Feb 4 the business purchased 25 XL Blue Shirts for **$15** (plus GST) per shirt (Invoice 101)

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 Feb	Balance							20	10	200

Area of Study 1

Cost Allocation Methods

Changing Cost Prices

Transaction 1: On Feb 4 the business purchased 25 XL Blue Shirts for $15 (plus GST) per shirt (Invoice 101)

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	Details	IN			OUT		Qty	BALANCE		
		Qty	Cost	Total		Cost	Total	Qty	Cost	Total
1 Feb	Balance							20	10	200
4 Feb	Inv. 101	25	15	375				20	10	200
								25	15	375

Changing Cost Prices

- When there's inventory at different cost prices on hand, it can be confusing to allocate cost when the inventory is leaving the business (sales, etc.)

- There are two **cost allocation methods** we can use:
    1. Identified Cost
    2. First In First Out (FIFO)

Identified Cost Method

- If the business chooses the Identified Cost Method, they have to individually label every inventory item in some way
- The most common example of this is tags/barcodes
- The use of barcodes mean that a business can identify the exact cost price of an item being sold

- When Identified Cost is used and a sale occurs, we will be told the cost price of the inventory that was sold
- It will be included in the question, like so:

Transaction: On Feb 4 the business sold 5 XL Blue Shirts for $165 (including GST) (Receipt 13). The cost price of the 5 shirts was $15/shirt.

Identified Cost Method

- It's important to note that sometimes, a business can't use Identified Cost because it's **not possible** to individually label each item of inventory
- One instance would be if a business has really really small inventory (e.g. nuts / bolts / screws)

- It could also be the case that the **time and cost** involved with individually labelling every item of inventory is not worth it
- That's up to the business owner to decide

First In First Out Method (FIFO)

- When First In First Out (FIFO) is used, we assume that whatever inventory was **purchased first** is **sold first**
- Thus when a sale occurs, we use the **oldest cost price** in the BALANCE column of the Inventory Card

- The question will not include the cost price, like below
- It's up to you to correctly select the correct cost price under the FIFO rules

Transaction: On Feb 4 the business sold 5 XL Blue Shirts for $165 (including GST) (Receipt 13).

First In First Out Method (FIFO)

- FIFO can be confusing because the cost price is always under an **assumption**
- You need to know the rules about the assumption for the following transactions:
  - **Sale**: the **oldest cost price** in the **BALANCE column** (oldest cost price on hand)
  - **Inventory Gain**: the **latest cost price** in the **IN column**
  - **Inventory Loss**: the **oldest cost price** in the **BALANCE column** (oldest cost price on hand)
  - **Sales Return**: the **latest cost price** in the **OUT column**

QUIZ QUESTION 10

The business has 45 XL Blue Shirts on hand.

Of this, 20 have a cost price of $10 / shirt and 25 have a cost price of $15 / shirt.

On the 6 of Feb, the business sells 15 XL Blue Shirts to a customer. The business uses FIFO.

What is the cost prices of the 15 shirts sold?

Inventory Card

Item: XL Blue Shirts
Code: D4AO375

Location: Aisle 8
Atlantic Apparel Warehouse

Supplier:

Date	**Details**	**IN**			**OUT**		**Qty**	**BALANCE**		
		Qty	**Cost**	**Total**		**Cost**	**Total**	**Qty**	**Cost**	**Total**
1 Feb	Balance							20	10	200
4 Feb	Inv. 101	25	15	375				20	10	200
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Answer: **$10 per shirt**

QUIZ QUESTION 10

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On the 6 of Feb, the business sells 15 XL Blue Shirts to a customer. The business uses FIFO.

What is the cost prices of the 15 shirts sold?

Answer: $10 per shirt

- Under FIFO, we assume that the inventory that was bought first is the inventory to leave the business first. Thus, the 15 shirts have a cost price of $10 / shirt, because this is the oldest cost price on hand.

Financial indicators and improving performance

Inventory Turnover (ITO)

- ITO is an indicator which measures the average number of days it takes the business to convert inventory to sales

$$ITO = \frac{Avg\ inventory \times 365}{Cost\ of\ Goods\ Sold}$$

- Slow ITO: It takes the business too long to convert inventory to sales
  - The business will have less cash to meet debts, worsening liquidity
  - May impact profitability as the business is earning less sales revenue
  - Addressing slow ITO: increase sales, or decrease inventory held
- Fast ITO: The business is converting inventory to sales too quickly
  - Business may be losing potential revenue
  - The business may have too little inventory on hand
  - Addressing fast ITO: bulk buying, changing selling price, rearrange inventory, offer discounts

Key tip: It’s always good to consider the nature of the business (i.e. what type of inventory it sells)

Financial indicators and improving performance (continued)

Accounts Receivable Turnover (ARTO)

- ARTO is a financial indicator which measures the average number of days it takes the business to collect cash from accounts receivable

$$ARTO = \frac{Avg\ accounts\ receivable \times 365}{Net\ Credit\ Sales\ (plus\ GST)}$$

- Slow ARTO: Business is waiting too long to receive cash from accounts receivable
  - The business may face difficulty meeting short-term debts
  - The chance of bad debts is more likely (potentially reducing profitability)
  - The business may not have enough cash to purchase inventory or repay suppliers
- Addressing slow ARTO:
  - Offer discounts
  - Invoice promptly
  - Hire a debt collection agency

Key point: The ARTO is an average measure indicator. If it is higher than credit terms, it indicates **most** accounts receivable, on average, aren't repaying the business in time.

Financial indicators and improving performance (continued)

Accounts Payable Turnover (APTO)

- APTO is a financial indicator which measures the average number of days it takes the business to repay accounts payable

$$APTO = \frac{Avg\ accounts\ payable\ \times\ 365}{Net\ Credit\ Purchases\ (plus\ GST)}$$

- Slow ARTO: Business is taking too long to repay accounts payable
  - The business may lose its credit facilities (and credit rating)
  - Incur deferral costs or miss out on discounts
  - Increase chance of bankruptcy or legal action
- APTO is largely reliant on ITO and ARTO
- Ideal situation: High ITO, high ARTO, low APTO

Non-financial information

- There are limitations to financial reports as a means to evaluate performance:
  - Reports use historical data
  - Comparing reports with other businesses is difficult
  - Indicators use averages
- Non-financial information is not found in financial statements or expressed in dollars
  - Assessing customer satisfaction through number of favourable surveys or repeat sales
  - Determining quality of inventory through number of sales returns, purchase returns, or complaints
  - Overall morale of employees through number of days of sick leave
- Key point: When referring to non-financial information be specific. Always refer to ‘number’ of something.

Area of Study 1

Ethical Considerations

1. Integrity
    - Accountants must be honest and straightforward in all relationships
    - Reports prepared must no contain false or misleading information
2. Impartiality
    - Accountants must remain professional in terms of their behaviour
    - Follow relevant laws and regulations
3. Objectivity
    - Accountants must avoid bias, conflict of interest or influence of others
    - Should not perform a service if they cannot be objective
4. Confidentiality
    - Accountants must not disclose info received from business to external third parties

Ethical Considerations

- VCAA guidelines: Consider financial, social and environmental implications
- "Ethical issues will impact on fundamental business operations and therefore directly affect the overall performance of a business”
- Examples:
    - Types of timber used for furniture (renewable vs non-renewable)
    - types of packaging materials (environmental and financial impact)
    - Choice of depreciation method
    - Timing of recording potential expenses
- https://www.vcaa.vic.edu.au/Pages/vce/adviceforteachers/accounting/developprogram.aspx

Ethical Considerations

- Examples of ethical considerations:
  - Factors to be taken into account when undertaking asset valuation, such as inventory write-downs, doubtful debts and depreciation. (Unit 3 Area of Study 1)
  - Whether to ‘window dress’ the figures in an accounting report in order to maximise the price of a business for sale. (Unit 3 Area of Study 2)
  - The ethical implications of shifting revenue and expenses in order to manipulate profit, such as not recording transactions in the appropriate period (Balance Day Adjustment). (Unit 4 Area of Study 1)
  - The social and/or environmental impact of a specific business decision and its implications for the goal of profit maximisation and optimisation of returns to the owners. (Unit 4 Area of Study 2)
  - Consideration of disclosure in accounting reports. (Unit 4)
- “Relevant ethical considerations will arise throughout the life of the study”

Thank you!